



The Insider

www.senate.michigan.gov/switalski

Inside State Politics with State Senator Mickey Switalski Senate District 10

January 23, 2004

Welcome to the electronic version of *The Insider*. With the New Year upon us, I would like to take the opportunity to thank you for your support and for giving me an opportunity to represent you in the Michigan Senate for the past year. It is my sincere hope that this bi-weekly e-newsletter will keep you informed of the happenings in Lansing, while keeping true to the traditional style of *The Insider*. If you would like to contact me, please feel free to e-mail me at senmswitalski@senate.michigan.gov or call me at my Roseville or Lansing office. You can also meet me in person during my constituent hours, coming to a library near you. Call my office and you can make an appointment, or you can just walk in. See page 4 for the schedule.

Legislative Update

Where Have the Fiscal Conservatives Gone?

As the State of Michigan begins its 4th consecutive year of fiscal stress, the struggle has become tiresome. Why did Republicans, with majorities in the House and Senate, and with John Engler in the Governor's office, fail to master the fiscal crisis? Can we expect anything different now? Has budget policy changed under Democratic Governor Granholm?

Consider the basic facts. There were two chief ingredients to the State budget deficits. These deficits are the product of large tax cuts and an economic recession. The recession and poorly performing economy result in fewer business transactions, and thus less sales tax revenue. They also mean higher unemployment, less overtime and lower earnings for workers, and thus less income tax revenue. Cuts to the rate of the Single Business Tax (SBT) and the Income Tax mean even less revenue to the government.

Given this context, it's revealing to look back now and evaluate budget actions during the current downturn. How did the Michigan government react when things turned bad in 2001? A budget report by the non-partisan *Senate Fiscal Agency* provides some surprising answers.

Governor Engler proposed a Fiscal Year (FY) 2001 General Fund appropriation of \$9.6 Billion. Despite signs of a slowing economy, the legislature added another \$80 million of spending to the Governor's original request, hiking spending to \$9.7 Billion. So the Republican majority not only maintained spending at the start of the recession, they actually *increased* it. When the economy stalled and revenues failed to come in as projected, the additional spending raised the FY 01 deficit from \$648 million to \$728 million.

That wasn't *fiscally responsible*. Nevertheless, Michigan's Constitution requires the budget to be balanced. So you might expect that the legislature returned to make budget cuts in the Fall.

It didn't happen. Engler and the Republican House and Senate agreed upon a package of one-time revenue fixes to plug the budget holes. One-time fixes are so named because they only work for one year. If you spend all your savings to make your car payments *this* year, you can't use them to make your car payment *next year*. You've already spent them.

In like fashion, the Governor and legislature raided the Rainy Day Fund and the Tobacco Settlement Trust Fund for \$290 million, and drained year end balances and work project accounts for another \$250 million. By converting cash payments for state buildings to debt financing, they generated another \$200 million. All in all, Engler and the Republican majority agreed to \$755 million in one-time fixes.

In summary, fiscally responsible Republicans cut nothing, spent more, and created a \$728 million structural imbalance in the state budget. A structural imbalance means that on a continuing basis, you are pledged to spend more than you can support in revenues. If you wanted to fund state government at *exactly the same level* the following year, with no increases, you'd be starting off \$728 million in the hole.

Reality was actually worse. Because of the recession, Michigan started FY 2002 with *even less money* than we had in 2001. Plus we had to make up \$728 million in one-time fixes.

Compounding the problem, Governor Engler was slow to adjust to the new fiscal reality. His proposed FY 02 budget was \$9.8 Billion, an *increase* of \$200 million from his FY 01 budget. And he and the legislature had made no fundamental reductions to the budget. At the same time, he remained committed to *cutting* revenues through his twin tax cuts, despite an economic recession that was rapidly *shrinking* general revenues.

General Fund revenues dropped so significantly that the FY 02 deficit reached \$1.5 Billion, more than doubling the \$728 Million shortfall of the year before. *This* time the legislature acted by cutting spending proposed by the Governor. But the cuts fell far short of what was necessary to bring about a structural balance. The legislature trimmed \$663 million from the Governor's proposal, and again drew on one time revenue sources to maintain the rest of the budget. The legislature tapped the Rainy Day Fund for another \$450 million and used various other transfers and shifts from the Tobacco and Merit Award Trust Funds to find \$960 million in one time revenue.

This represents a second year of stop gap measures adopted by Republicans to escape the budget mess without making the fundamental reforms necessary to address the structural imbalance.

Finally, in FY 03, Engler actually proposed a budget lower than the previous year's. The FY 03 General Fund proposal came in at \$9.3 Billion. That was \$500 million less than his FY 02 proposal. But that proposal itself had been \$1.5 Billion out of balance, and revenues would fall again to make this new budget \$1.4 Billion short.

The legislature cut the Governor's proposal an additional \$478 million further, leaving another \$1 billion to be made up by - you guessed it - one-time revenue fixes. But for the first time, the legislature actually raised revenue by increasing the cigarette tax. Combined with a pause in the SBT tax rollback, the two measures produced \$200 million in new revenue.

Hindsight is 20-20, but this review demonstrates that even Republican legislators, with a reputation for fiscal conservatism and control of the House, Senate, and Governor's office, failed to make the tough choices necessary to balance the state's budget on a continuing basis.

They failed on two sides of the budget equation. First, Republicans avoided making budget cuts sufficient to achieve balance, and instead relied heavily on one-time cuts.

Second, they didn't stabilize revenues. Why not admit the annual tax cuts, adopted in the go-go years of the late 90s, were unsustainable during a recession? The cuts should have been paused until the economy recovered. Instead Republicans clung to tax cuts adopted when state revenues were increasing by almost 7% per year.

But times were now very different. In fact, revenues dropped from a projected \$9.6 Billion in FY 01 to an anemic \$7.8 billion in FY 03.

So what if Republicans failed to live up to their reputation for Fiscal Responsibility? Have Democrats done any better? When Governor Granholm took over in January of 2003, how did she close the billion dollar gap she inherited?

The Governor's first budget was her FY 04 proposal. As the table demonstrates, Governor Engler consistently overestimated available revenue when he proposed his budgets during the downturn. Governor Granholm made this same mistake, proposing \$8.6 Billion in spending for FY 04 when revenues came in at only \$7.8 billion. She cut deeper than Engler, trimming \$700 million from the previous budget. But she acquiesced in a \$200 million increase added by the legislature. That resulted in a \$1 Billion deficit.

General Fund Budget (<i>in billions</i>)					
	FY00	FY01	FY02	FY03	FY04
Governor's Budget	9.1	9.6	9.8	9.3	8.6
Final Appropriation	9.6	9.7	9.1	8.8	8.8
Revenue	9.8	9.0	8.3	7.9	7.8
Surplus/Deficit	+.2	-.7	-.8	-.9	-1.0

Why the systemic optimism?

There are three reasons. All Governors' Budget proposals are political documents. They are the opening phase in negotiations with the legislature. Budget Proposals generally spend what the experts say is available to spend. But the State Treasurer, the Governor's appointee, is one of the experts, and overestimating your budget by \$1 Billion is usually not good tactics.

Secondly, it's also true that 4 straight years of declining revenue are unprecedented in Michigan, and economists can be forgiven for expecting a quicker turnaround based on past experience. But fool me once, shame on you. Fool me twice, shame on me.

Finally, a significant part of the deficits has been the tax cuts. It shouldn't be so surprising that revenues would fall when we continue to cut tax rates each year. Economists at the Revenue Conference in January pointed out that more than half of the \$500 Billion Federal Deficit is directly attributable to the Bush tax cuts. Michigan's deficit is no different. It's called doing the same thing over and over and expecting different results.

Granholm will be proposing her second budget soon. Will it break the cycle of proposing a spending level significantly higher than ultimate revenues? If it doesn't, we will continue to face mid year cuts that cause havoc to efficient operations. A responsible proposal would strike a balance by cutting spending again, while raising enough revenue to provide a cushion if the economy continues to sputter.

Lead Abatement Legislation

The Michigan Senate unanimously passed a package of bills that would deal with the problem of lead poisoning earlier this week. I voted in favor of each of the four bills in the package. It has been estimated that over 20,000 children in the state of Michigan under the age of six are affected by lead poisoning.

The package of bills would prohibit a landlord or property owner from knowingly renting out a property that contains lead paint and would also create a Department of Community Health-run Lead Safe Housing Registry. In addition, the bills would create a Childhood Lead Poisoning Prevention and Control Commission that would study the public health hazard of lead and make policy recommendations and the bills would also require that laboratories provide a report to the Department of Community Health after conducting a lead screening test.

The bills are now awaiting action in the Michigan House.

Coffee Hours

*Please note that since the District Office is in Roseville I do not have coffee hours in Roseville. I encourage you to visit the Roseville office. We even have a coffee pot.

Sterling Heights/Utica

**Feb. 9, Mar. 1
7-9 P.M.**

Location: Sterling Heights Library
(Utica and Dodge Park roads)

Clinton Township

**Jan. 26, Feb. 23, Mar. 29
7-9 P.M.**

Location: Clinton Township Library
(35891 Gratiot and 15 mile)

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